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1966 ANNUAL REPORT

MONTEX

MONTEX APPAREL INDUSTRIES LIMITED

1867 1967
CANADA-CONFEDERATION

DIRECTORS:	D. A. McIntosh, Q.C. A. G. Brown N. Lieberman C. A. Duff A. R. Biggs N. Saykaly W. A. Corbett D. R. Annett J. W. Blain, Q.C. E. C. Kerr
OFFICERS:	D. A. McIntosh, Q.C., Chairman of the Board A. G. Brown, President and Chief Executive Officer N. Lieberman, Executive Vice-President C. A. Duff, Executive Vice-President A. R. Biggs, Vice-President, Finance and Treasurer N. Saykaly, Vice-President W. A. Corbett, Secretary L. Van Buskirk, Assistant Treasurer
TRANSFER AGENTS:	Common: The Royal Trust Company, Toronto and Montreal Preference: Canada Permanent Trust Company, Toronto and Montreal
STOCK EXCHANGE:	Toronto Stock Exchange

MONTEX

Head Office: 88 Ronson Drive, Rexdale, Ontario

To The Shareholders

The upward trend in your Company's sales evident during the first part of 1966 was upset by an unexpected and severe decline in demand and prices during the last quarter of the year. This decline, which affected many sections of the Canadian textile industry, combined with increased fixed charges, was the main factor contributing to a loss of $341,499 in the year ended December 31, 1966. While a loss of this magnitude is very serious and every step which your Company can take to ensure profitable operations in 1967 must and will be taken, the year 1966 nevertheless resulted in further progress and growth for your Company. Manufacturing facilities were expanded, export markets were developed and the consolidation of internal operations continued. These activities are reported on in more detail below.

Expansion

The recent purchase of two manufacturing and marketing firms in Hamilton, previously owned by Mr. and Mrs. Nathan Lieberman, greatly increased your Company's production facilities and its earning capacity. This acquisition is of particular significance to our Carter Division which will greatly benefit from the facilities available at the Hamilton operations.

Another positive result of this expansion is the consolidation of Ontario operations which will allow your Company to rationalize and streamline the knitting and manufacturing operations of the Company under Mr. Nathan Lieberman's guidance. This should significantly increase the efficiency of Ontario-based operations and should affect favourably the Company's overall profitability.

Exports

As you may be aware, your Company has the most modern and up-to-date production facilities with a capacity that can easily handle a production volume far in excess of the present Canadian market for Montex products. In view of this fact, "Montex International", an export division of your Company has been formed. You will be pleased to know that results to date of our efforts in this area of sales promotion have been most encouraging and shipments of Montex apparel have been made to Holland, Germany, Australia, the United Kingdom and the United States.

Your Company recently obtained a substantial initial order for our Dorsay line of Intimate Apparel from a large U.S. retail organization. The first shipments against this order are due in mid-June of this year and will be marketed under the "Dorsay of Canada" label. Negotiations for the sale of other lines in the United States are well advanced at this time and your management expects that export sales in 1967 will reach about 10% of total volume.

If, as we expect, Montex created garments meet with consumer acceptance outside Canada, particularly in the United States, exports in 1968 could well add 15% to 20% to your Company's sales.

Management

Your Company's management has been strengthened by the recent appointments of Mr. Nathan Lieberman and Mr. Alex Duff to the board of directors and as executives of the Company.

Mr. Lieberman, as Executive Vice-President and General Manager in charge of Ontario operations, has brought to Montex valuable knowhow in knitting and manufacturing which he acquired over many years in the textile trade.

Mr. Duff, as Executive Vice-President in charge of Administration, is an experienced executive who came to Montex from a large Canadian corporation.

Outlook for 1967

Due to the inclusion of the Lieberman production facilities, sales for the first four months of the current year are substantially higher than in the corresponding period of 1966. Excluding the volume attributable to the Lieberman companies, Montex sales this year are comparable to those during the same period of 1966. In view of the generally weak market, this in itself represents a noteworthy achievement and is proof of Montex product acceptance.

Your directors are of the opinion that your Company's increased human and technical resources, combined with expanding export sales and, hopefully, an improved market at home, will contribute substantially to Montex growth and profitability in the current year.

On behalf of the board,

G. Brown.

A. George Brown,
President.

NATHAN LIEBERMAN, executive vice-president and general manager in charge of Ontario operations, joined Montex in connection with the recent acquisition by the company of his manufacturing and merchandising organization in Hamilton. Mr. Lieberman has more than 30 years' experience as a textile manufacturer and is highly regarded in the clothing industry.

1867 1967

NICHOLAS SAYKALY, vice-president and general manager of Quebec operations, is a co-founder of Dorsay (Canada) Ltd. and a highly creative and experienced fashion designer and production supervisor. He became a member of the Montex management when Dorsay joined the Montex group in 1964.

C. ALEX DUFF, corporate executive vice-president of the company, supervises the administration of Montex operations from the Montreal office. Mr. Duff, who joined the company early this year, has broad experience in corporate management. He was for many years vice-president and general manager of a long-established, major Canadian group of department stores.

montex

ALAN R. BIGGS, C.A., vice-president, finance, and treasurer. As well as being a chartered accountant, he is an honours graduate of the University of Western Ontario in business administration. Mr. Biggs is responsible for the successful integration of the various companies forming part of Montex into a unified corporate structure. He joined the Montex group in 1964.

Consolidated Balance Sheet

ASSETS

	1966	Comparative 1965
CURRENT		
Cash	$ 205,946	$ 161,071
Accounts receivable less allowance	2,947,624	2,889,998
Claim for refund of income taxes	89,779	
Inventories of materials, supplies, work in progress and finished goods **(Note 2)**	6,810,688	6,450,520
Property for realization **(Note 3)**	160,000	117,249
Prepaid expenses	111,580	104,228
Total current assets	$10,325,617	$ 9,723,066
INVESTMENTS AND NON-CURRENT RECEIVABLES		
Mortgages receivable	$ 21,984	
Special refundable tax	7,772	
Shares of subsidiary at cost		$ 1,500
	$ 29,756	$ 1,500
FIXED — at cost		
Land	$ 110,810	$ 86,110
Buildings	1,966,200	1,843,975
Machinery and equipment	4,559,384	3,862,791
	$ 6,636,394	$ 5,792,876
Less: Accumulated depreciation	3,550,362	3,133,590
	$ 3,086,032	$ 2,659,286
Leasehold and plant improvements less $40,140 amortized	344,903	98,516
	$ 3,430,935	$ 2,757,802
DEFERRED CHARGES AND OTHER ASSETS (Note 4)	$ 385,734	$ 269,998
EXCESS OF COST OF INVESTMENT IN CERTAIN SUBSIDIARIES OVER BOOK VALUE AT DATES OF ACQUISITION (1965 adjusted for comparison by offsetting $785,661 previously shown under shareholders' equity)	$ 1,483,377	$ 654,452
	$15,655,419	$13,406,818

See accompanying notes to financial statements.

as at December 31, 1966

LIABILITIES

		1966	Comparative 1965
CURRENT			
Bank indebtedness — secured		$ 4,520,588	$ 3,742,116
Accounts payable and accrued charges		2,074,670	1,894,916
Income and other taxes		334,472	141,090
Dividend payable		16,746	16,770
Loans, mortgages and other indebtedness — $341,650 secured		489,530	
Long-term debt payments due within one year		248,280	78,468
Total current liabilities		$ 7,684,286	$ 5,873,360
LONG-TERM DEBT (Note 5)		$ 3,371,493	$ 3,164,300
SHAREHOLDERS' EQUITY			
CAPITAL STOCK (Note 6)			
5½% cumulative redeemable convertible first preference shares of $8 each (redeemable at $8.40)	No. of shares		
Authorized, issued and outstanding	152,233	$ 1,217,864	$ 1,219,600
Common shares without par value			
Authorized	1,952,751		
Issued and outstanding	1,091,865	2,615,910	1,975,199
RETAINED EARNINGS		765,866	1,174,359
		$ 4,599,640	$ 4,369,158
		$15,655,419	$13,406,818

Approved on behalf of the Board of Directors A. G. Brown
A. R. Biggs

Notes to Consolidated Financial Statements

1 Consolidation

The consolidated financial statements include all subsidiary companies and also two companies the shares of which were acquired by agreement dated December 29, 1966 with closing transactions on March 28, 1967 on the basis of their financial position at September 30, 1966. The sales, costs and expenses of these two companies for the year are included and their net income from January 1 to September 30 is deducted. All the companies are wholly owned.

2 Inventories

During the year the method of valuation of finished goods inventories was changed from the lower of cost and market value to net realizable value less normal profit margin which has had the effect of increasing inventories and reducing the net loss for the year by approximately $90,000. The method adopted is considered to be more satisfactory for valuing all the various finished goods inventories. Other inventories are valued at the lower of cost and replacement cost.

3 Property for realization

Land acquired during the year as a building site and sold after December 31, 1966 stated at selling price.

4 Deferred charges and other assets

	Amortized to December 31		Unamortized balance	
	1966	1965	1966	1965
Product development and introduction expenses	$ 11,405		$ 75,392	$ 86,797
Deferred engineering and plant opening expenses	25,399	$ 4,600	61,213	$ 51,989
Corporate and financing expenses	21,716	10,062	87,812	98,615
Relocation expenses including loss on building site	15,237		120,955	
Other expense items, deposits and miscellaneous			40,362	32,597
			$385,734	$269,998

5 Long term debt

Parent	
6½% first mortgage sinking fund bonds Series A due November 15, 1980 (sinking fund $200,000 annually November 15, 1967-79; redeemable at par for sinking fund and in whole or part at premium after November 15, 1970)	$3,000,000
Notes due $10,000 half yearly to 1971 bearing interest at 6% from June 1, 1967	100,000
5% secured notes due April 30, 1969	365,000
Subsidiaries	
6½% first mortgage bond on machinery and fixtures due March 1967	6,300
7% first mortgage bond on equipment due February 1970	57,000
6% mortgage due May 1981	91,473
	$3,619,773
Less: Amount due within one year included in current liabilities	248,280
	$3,371,493

The company is in default of a covenant in respect of working capital in the Deed of Trust and Mortgage securing the 6½% first mortgage sinking fund bonds Series A.

6 Capital stock

	Shares	Amount
5½% cumulative redeemable convertible first preference shares of $8 each		
Issued and outstanding January 1, 1966	152,450	$1,219,600
Converted into common shares	217	1,736
Issued and outstanding December 31,1966	152,233	$1,217,864
Common shares without par value (on July 7, 1966 the shares were subdivided 3 for 1 and all the following amounts are adjusted accordingly)		
Issued and outstanding January 1, 1966	878,739	$1,975,199
Preference shares converted	651	1,736
Employees' options exercised	2,400	8,800
Warrants exercised	75	175
Issued March 28, 1967 as part consideration for shares of subsidiary companies (see Note 1)	210,000	630,000
Issued and outstanding December 31, 1966	1,091,865	$2,615,910

for the year ended December 31, 1966

At December 31, 1966 there were outstanding warrants and options to purchase common shares as follows:

	No. of shares	Price per share	Expiry date
Warrants	351,975	($2.33 1/3	January 15, 1969
		(3.00	January 15, 1974
	108,000	6.66 2/3	November 15, 1980
Options	150,000	3.66 2/3	October 14, 1969
Employees	(20,700	3.66 2/3	December 4, 1969
	(6,000	5.33 1/3	November 12, 1970

Each preference share is convertible into three common shares at any time at the option of the holder.

During 1967 and each year thereafter with possible exceptions the company will be obligated to purchase for cancellation 3,750 preference shares to the extent available at prices not exceeding par value.

The trust deed securing the 6½% first mortgage sinking fund bonds contains certain restrictions on the payment of dividends after December 31, 1966 based on earnings and fixed charges for 1966 and subsequent years.

7 Depreciation

Having regard to current value and estimated remaining useful life of certain textile plants the amount provided for depreciation of buildings, machinery and equipment for the year is $126,653 less than it would have been at normal rates used for 1965 which has had the effect of reducing the net loss for the year by $126,653.

8 Income taxes

As a result of deducting depreciation and certain costs and expenses for income tax purposes in excess of amounts charged in the accounts, income taxes of approximately $87,700 for the year and $518,700 to date have been deferred and the provision made for income taxes does not include these amounts. In addition the provision for the year as stated has been reduced by approximately $149,700 by applying losses.

9 Lease commitments

The company and subsidiaries are lessees of premises for terms not exceeding 25 years at annual rentals of $293,250 and also have certain other lease commitments for shorter terms.

10 Remuneration of directors and senior officers

Fees to directors as such amounted to $1,500 and the aggregate direct remuneration paid by the company and its subsidiaries to directors and senior officers of the company amounted to $170,333.

Consolidated Statement of Income
for the year ended December 31, 1966

	1966	Comparative 1965
Sales	$18,211,286	$15,403,413
Income before deducting the following (1965 includes special items totalling $399,749)	$ 196,483	$ 946,646
Interest and amortization — long term debt	201,463	58,706
Depreciation and amortization **(Note 7)**	180,994	238,484
	$ 382,457	$ 297,190
(Loss) before income taxes	$(185,974)	$ 649,456
Income taxes **(Note 8)**	18,110	107,800
(Loss) before deducting pre-acquisition income of subsidiaries	$(204,084)	$ 541,656
Pre-acquisition income of subsidiaries	137,415	(61,755)
Net (loss) for the year **(Notes 2 and 7)**	$(341,499)	$ 603,411

Consolidated Statement of Retained Earnings
for the year ended December 31, 1966

	1966	Comparative 1965
Balance at beginning of year	$ 1,174,359	$ 385,865
Net (loss) for the year	(341,499)	603,411
Proceeds of disposal in excess of cost of investment in subsidiary		263,573
	$ 832,860	$ 1,252,849
Dividends on preference shares	66,994	67,169
Premium on redemption of preference shares and dividends to minority shareholders of predecessor subsidiary		11,321
Balance at end of year	$ 790,206	$ 1,174,359

Consolidated Statement of Source and Application of Funds
for the year ended December 31, 1966

		1966	Comparative 1965
Funds provided			
Net (loss)		$(341,499)	$ 603,411
Add depreciation and other non-cash items (net)		209,568	217,160
		$(131,931)	$ 820,571
Sale of shares of subsidiary		5,461	1,003,552
Issue of bonds			3,000,000
Issue of capital stock		8,975	13,375
Other			29,654
		$(117,495)	$4,867,152
Funds applied			
Additions to fixed assets less proceeds of disposal		$ 658,030	$ 694,532
Reduction of long term debt		250,238	674,200
Redemption of preference shares of subsidiary			226,915
Acquisition of subsidiaries			
Cost	$1,178,903		
Less payment from other than working funds			
Capital stock	$ 630,000		
Long term debt	365,000		
	$ 995,000	183,903	193,683
Re-location expenses including loss on building site		136,191	
Bond issue and amalgamation expenses			88,111
Product development and introduction expenses			72,559
Deferred plant opening expenses		30,023	33,589
Dividends paid		66,994	67,169
Other		35,969	4,906
		$1,361,348	$2,055,664
(Decrease) in working capital		$(1,478,843)	$2,811,488
Working capital at beginning of year and adjustments for subsidiaries acquired		4,120,174	1,038,218
Working capital at end of year		$2,641,331	$3,849,706

Auditors' Report

To the Shareholders of
Montex Apparel Industries Limited:

We have examined the consolidated balance sheet of Montex Apparel Industries Limited and its subsidiary companies as at December 31, 1966 and the consolidated statements of income, retained earnings and source and application of funds for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances in respect of those companies of which we are the auditors; we have relied on the reports of other auditors on their examination of the financial statements of certain subsidiaries.

In our opinion the accompanying consolidated balance sheet and consolidated statements of income, retained earnings and source and application of funds present fairly the financial position of the companies as at December 31, 1966 and the results of their consolidated operations and source and application of their funds for the year ended on that date after giving effect to acquisition of two subsidiary companies as stated in Note 1, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year except for the changes in respect of inventories and depreciation as stated in Notes 2 and 7.

Toronto, Canada,
May 10, 1967.

Winspear, Higgins, Stevenson and Doane
Chartered Accountants.

Presenting . . .

Monarch-Knit

MENS UNDERWEAR

Dorsay

ULTIMATE IN ELEGANCE
LINGERIE

Pedigree

SKIWEAR and SWIMWEAR

VIYELLA

Intimate

DUSTERS

LOUNGEWEAR

Carter's

CHILDRENS' WEAR

The MONTEX family

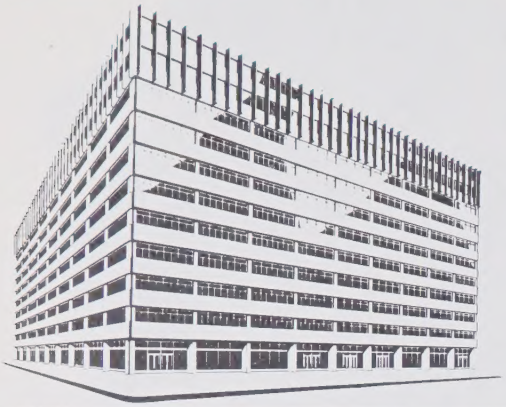
PASSPORT

SPORTSWEAR and CO-ORDINATES

UNIQUE

ATHLETIC EQUIPMENT

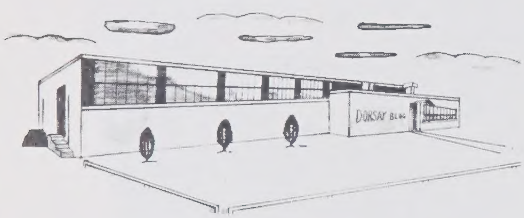
PLANTS



MONTEX MONTREAL OFFICE

All Montreal-based companies of the Montex group and their 400 employees are now located on three floors of this new 12-storey Montex Building at 9320 St. Lawrence Boulevard. The 180,000 square feet of leased space accommodate executive offices and showrooms for Dorsay Lingerie, Intimate Apparel, Pedigree Sportswear, Passport Apparel and Montino Fashions, as well as the Montex International export division. In addition, the building houses extensive knitting, manufacturing and warehousing facilities.

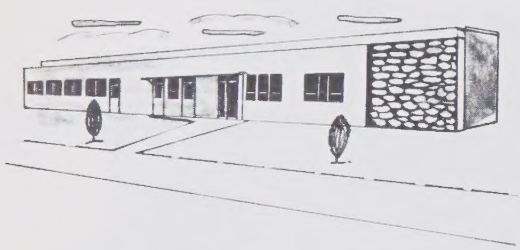
Montex



DRUMMONDVILLE PLANT

Situated on a 4½-acre site, Montex newest plant was purchased in 1966. The 22,000 square-foot building houses manufacturing facilities of Dorsay (Canada) for nylon tricot slips, half slips and briefs. Also in this building is a new ultra-modern embroidery plant which services all Quebec operations. The plant employs approximately 300 people.

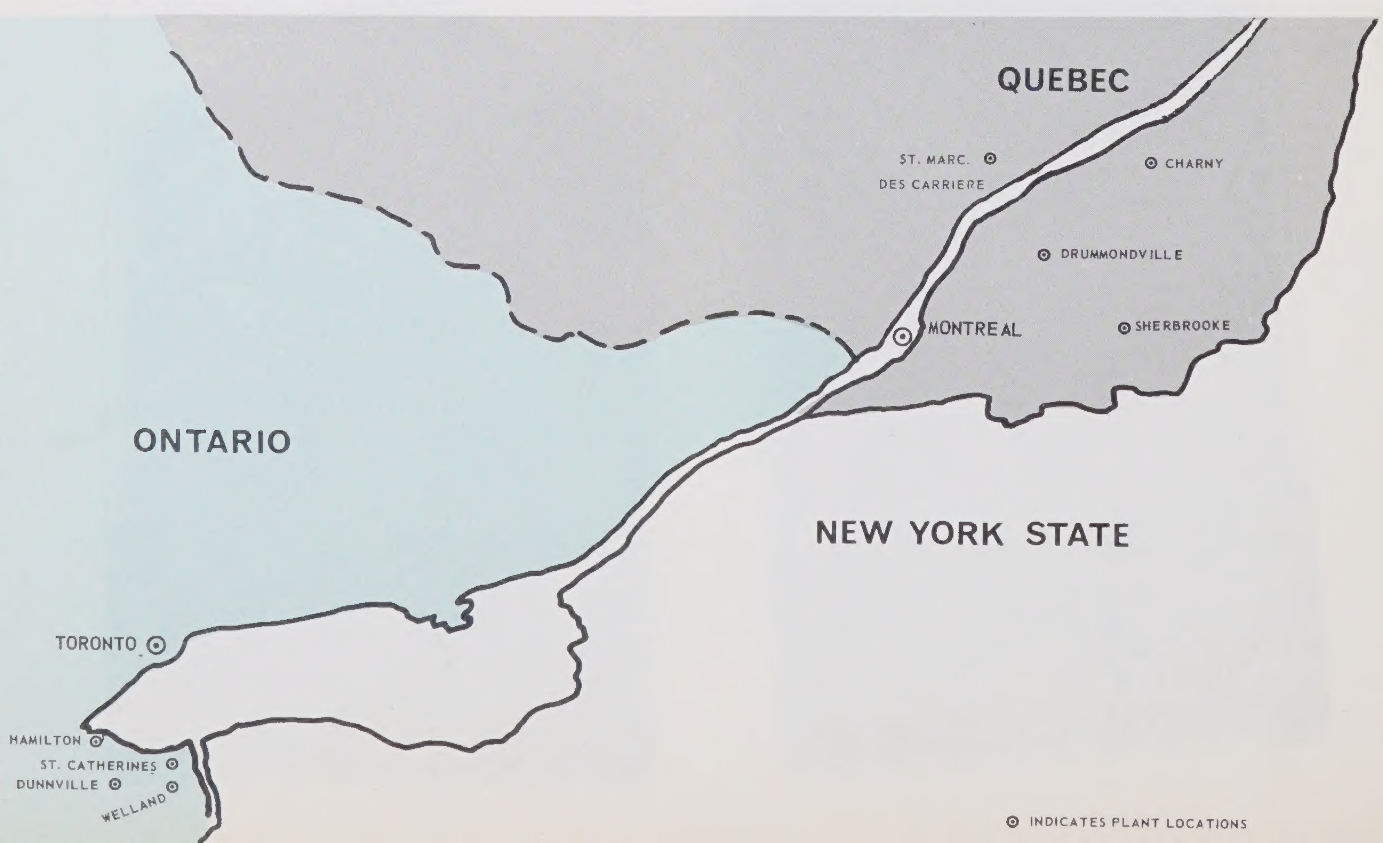
Dorsay



WELLAND PLANT

This modern 32,000 square-foot building at Welland, Ontario, houses the manufacturing facilities of Montex Monarch-Knit division. The plant is equipped to produce 150,000 garments weekly on three conveyorised sewing lines and employs approximately 250 people. It is anticipated that growing sales demand may soon necessitate the addition of a cutting room and of further conveyor lines to the existing facilities.

Monarch-Knit



MONTEX HEAD OFFICE

In 1966 Montex Apparel Industries moved its corporate offices to 88 Ronson Drive, Rexdale, Metropolitan Toronto. Apart from serving as the company's head office, this handsome building with its 75,000 square feet of floor space, accommodates marketing, accounting and central warehousing facilities for all Ontario based operations. Famous brands of Monarch-Knit, Jockey, Toughies and Carter apparel as well as Viyella and Bancora hosiery are shipped to Rexdale from Montex plants in Welland, St. Catharines and Hamilton for marketing and distribution.